

**Marquette County Road Commission
Component Unit Financial Statements
For the Year Ended September 30, 2004**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <u>Marquette County Road Commission</u>	County <u>Marquette</u>
Audit Date <u>9/30/04</u>	Opinion Date <u>12/10/04</u>	Date Accountant Report Submitted to State: <u>3/31/05</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <u>Anderson, Tackmon & Co. PLLC</u>			
Street Address <u>102 W. Washington St. Suite 109</u>	City <u>Marquette</u>	State <u>MI</u>	ZIP <u>49855</u>
Accountant Signature <u>[Signature]</u> CPA			

MARQUETTE COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Robert Pecotte, Chairperson

Darryll Sundberg, Vice Chairperson

Michael Kuopus, Member

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Marquette County Road Commission
Ishpeming, Michigan 49849

We have audited the accompanying financial statements of the governmental activities of the Marquette County Road Commission a component unit of the County of Marquette, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, of the Marquette County Road Commission as of September 30, 2004, and the changes in financial position there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, and budgetary comparison information on pages 6 through 13 and 26 through 27, is not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated December 10, 2004 on our consideration of the Marquette County Road Commission's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Honorable Chairman and Members
of the Board of Commissioners
County of Marquette, Michigan

Our audit was conducted for the purpose of forming opinion's on the financial statements that collectively comprise the Marquette County Road Commission's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Marquette County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

December 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of Marquette County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended September 30, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services are financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to ensure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Commission as a Whole

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commissions' net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the conditions of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 29. The fund financial statements begin on page 14 and provide detailed information about the major fund.

Governmental Funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 27%, or \$1,317,084, from \$4,828,025 to \$6,145,109 for the year ended September 30, 2004. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on the by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge or otherwise mandate payment of resources and include a legally enforceable requirement

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The restricted net assets increased by \$1,317,084 during 2004.

The general fund operations resulted in a net increase of \$1,270,357. The following adjustments were made in order to calculate the change in net assets of \$1,317,084:

- Increase expenditures by net capital outlay expenditures of \$60,324
- Increase expenditures by the change in vacation and sick leave balances of \$30,236
- Decrease expenditures by debt principal payments made -- \$328,398
- Decrease revenues by the book value of assets that were disposed of during the year -- \$191,111

Net assets as of years ended September 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Current and Other Assets	\$7,070,680	\$5,809,507
Capital Assets	<u>2,550,563</u>	<u>2,801,998</u>
Total Assets	<u>9,621,243</u>	<u>8,611,505</u>
Long-Term Debt Outstanding	2,380,891	2,679,053
Other Liabilities	<u>1,095,243</u>	<u>1,104,427</u>
Total Liabilities	<u>3,476,134</u>	<u>3,783,480</u>
Net Assets		
Invested in Capital Assets		
Net of Debt	946,596	869,633
Restricted	<u>5,198,513</u>	<u>3,958,392</u>
Total Net Assets	<u>\$6,145,109</u>	<u>\$4,848,025</u>

Changes in Net Assets

A summary of changes in net assets for the years ended September 30, 2004 and 2003 is as follows:

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Program Revenue		
License and Permits	\$ 18,480	\$12,230
Federal Grants	796,951	428,015
State Grants	7,452,957	6,757,127
Contributions From Local Units	408,208	375,987
Charges for Services	2,247,832	2,799,147

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	<u>2004</u>	<u>2003</u>
Investment Earnings	\$ 77,019	\$ 147,356
Reimbursements	<u>396,144</u>	<u>488,137</u>
Total Revenue	<u>11,397,591</u>	<u>11,007,999</u>
Expenses		
Public Works	10,044,833	9,415,156
Interest Expense	<u>75,674</u>	<u>82,201</u>
Total Expenses	<u>10,120,507</u>	<u>9,497,357</u>
Excess Before Transfers	1,277,084	1,510,642
Transfer in	<u>40,000</u>	<u>-</u>
Increase in Net Assets	<u>\$1,317,084</u>	<u>\$1,510,642</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2004, the fund balance of the general operations fund increased \$1,270,357 as compared to an increase of \$1,616,697 in the fund balance for the year ended September 30, 2003. Total operating revenues were \$11,588,702 an increase of \$544,274 as compared to last year. Total expenditures were \$10,358,345, an increase of \$243,939 as compared to last year.

For the second year in a row the Road Commission made a sizable contribution to its fund balance. This was largely due to postponing capital equipment purchases, and a delay in the construction of some major projects. Also contributing to the increase were some revenue adjustments relating to prior periods, along with some unexpected refunds.

A summary of changes in the Operating Fund is as follows:

	<u>9/30/04</u>	<u>9/30/03</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Variance Percent</u>
Revenues				
License & Permits	\$ 18,480	\$ 12,230	\$ 6,250	51%
Federal Grants	796,951	428,015	368,936	86
State Grants	7,452,957	6,757,127	695,830	10
Contributions From Local Units	408,208	375,987	32,221	9
Charges for Services	2,247,832	2,799,147	(551,315)	(20)
Interest and Rents	77,019	147,356	(70,337)	(48)
Other Revenue	<u>587,255</u>	<u>524,566</u>	<u>62,689</u>	<u>12</u>
Total Revenues	<u>11,588,702</u>	<u>11,044,428</u>	<u>544,274</u>	<u>5</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	9/30/04 <u>Operating Fund</u>	9/30/03 <u>Operating Fund</u>	Favorable (Unfavorable) <u>Variance</u>	Variance <u>Percent</u>
Expenditures				
Public Works	\$10,014,597	\$9,476,090	\$(538,507)	(6) %
Net Capital Outlay	(60,324)	292,580	352,904	121
Debt Service	<u>404,072</u>	<u>345,736</u>	<u>(58,336)</u>	<u>(17)</u>
Total Expenditures	<u>10,358,345</u>	<u>10,114,406</u>	<u>(243,939)</u>	<u>(2)</u>
Excess of Expenditures Over Revenues	<u>1,230,357</u>	<u>930,022</u>	<u>300,335</u>	<u>32%</u>
Other Financing Sources				
Proceeds from Lease	-	686,675	(686,675)	100%
Transfer In	<u>40,000</u>	<u>-</u>	<u>40,000</u>	<u>100</u>
Total Other Financing Sources	<u>40,000</u>	<u>686,675</u>	<u>(646,675)</u>	<u>(94)</u>
Excess of Revenues and Other Financing Sources Over Expenditures	1,270,357	1,616,697	(346,340)	(21)
Fund Balance—Beginning	<u>4,705,080</u>	<u>3,088,383</u>	<u>1,616,697</u>	<u>52</u>
Fund Balance--Ending	<u>\$5,975,437</u>	<u>\$4,705,080</u>	<u>\$1,270,357</u>	<u>27%</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget were compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$3,421,797, lower than the original budget. The actual revenue recognized during 2004 was greater than the final amended budget by \$110,899.

A major bridge project was postponed, resulting in fewer federal revenue dollars than originally planned, which was the major cause for reduction from the original to the amended budget. Total actual revenues were quite close to the amended budget projections. Grant funding for various projects was underestimated in some cases and overestimated in others, resulting in a overall shortfall of approximately \$380,000. However, a prior period State audit adjustment of approximately \$384,000 along with various insurance reimbursements of approximately \$150,000 more than offset this shortfall.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The final amended expenditure budget for 2004 was \$3,421,797, lower than the original budget. The actual expenditures recognized during 2004 were less than the final amended budget by \$1,159,458.

Again, postponing a major project resulting in expenses being reduced from the original budget to the amended budget. Actual expenditures ended up being significantly lower than the amended budget. The main cause for the reduced expenditures as due to heavy maintenance projects being overestimated, by approximately \$572,500. The other cause was due to an error in budgeting for depreciation which resulted in capital outlay being under budget by approximately \$460,000.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2004, the Road Commission had invested \$2,550,563 in capital assets. This amount represents a net decrease (including additions and deductions) of \$251,435 or 9% as follows:

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change 2004/2003</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 272,377	\$ 272,377	0%
Land/Right-of-Way	-	-	0%
Construction in Progress	-	-	0%
Subtotal	<u>272,377</u>	<u>272,377</u>	<u>0%</u>
Capital Assets Being Depreciated			
Depletable Assets	161,686	161,686	0%
Buildings	2,003,195	2,003,195	0%
Equipment	11,289,833	11,408,973	(1)%
Yard and Storage	518,117	280,612	85%
Infrastructure	-	-	0%
Subtotal	<u>13,972,831</u>	<u>13,854,466</u>	<u>(1)%</u>
Total Capital Assets	<u>14,245,208</u>	<u>14,126,843</u>	<u>1%</u>
Total Accumulated Depreciation	<u>(11,694,645)</u>	<u>(11,324,845)</u>	<u>(3)%</u>
Total Net Capital Assets	<u>\$ 2,550,563</u>	<u>\$ 2,801,998</u>	<u>(9)%</u>

In the current fiscal year, the Road Commission constructed a new state salt shed for \$237,505 reimbursed by the State of Michigan, an upgrade to the account software for \$25,974, a wheeler loader for \$194,173, a road paver for \$45,000, a sander box for \$16,730 and \$13,312 in smaller items.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Also, the Road Commission disposed of \$191,291 worth of equipment during the year at auction. \$75,023 Sweeper, \$49,137 road paver, 5 pickup trucks \$31,183, Sander box for \$12,059, Roller \$5,000 and an excavator \$18,889.

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$-0- and an additional \$-0- in construction in progress related to the infrastructure. The infrastructure recorded, during 2004, will be depreciated in the following year. The infrastructure is financed through federal, state and local contributions.

The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB 34.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$	-
Various Resurfacing Projects and Related Land/Right-of-Way		-
Construction in Progress (Various Resurfacing Projects)		-
Land		-
Building		-
Trucks/Equipment		295,189
Yard and Storage		<u>237,505</u>
Total Additions		<u>\$532,694</u>

Debt

At the year end, the Road Commission had \$1,894,742 in bonds and installment purchase agreements versus \$2,223,140 last year, a decrease of 328,398% as shown below:

	<u>2004</u>	<u>2003</u>	<u>Variance</u>	Total Percentage Change <u>2004/2003</u>
Bonds Payable	\$ 1,400,000	\$ 1,600,000	\$(200,000)	(13)%
Installment Purchase Agreements	<u>494,742</u>	<u>623,140</u>	<u>(128,398)</u>	<u>(21)%</u>
Total	<u>\$1,894,742</u>	<u>\$2,223,140</u>	<u>\$(328,398)</u>	<u>(15)%</u>

During 2004, there was no new debt.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note I to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 52% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$5,878,000, (2.9%) less in Michigan Transportation Fund revenues in 2005. The Road Commission received approximately 4% of its revenues from township contributions during 2004, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2005, we expect to receive at least \$2,228,000 in federal and state aid for road projects, some of which was deferred from 2004. Some of these projects were released late in the year after the construction season.

The above items were considered when adopting the budget for 2005.

Budgeted expenditures for 2005 are \$11,709,432, and budgeted revenues are \$11,163,639. The 2005 budget assumes a use of fund equity of \$545,793 for capital equipment purchases that have been postponed for the past two years. Heavy maintenance expenditures and the federal/state aid and township contributions associated with them are based on projects planned for the summer of 2005. Regular maintenance expenditures, along with administrative and engineering expenditures are based on 2004 actual expenses, taking into account labor and fringe benefit increases.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Marquette County Road Commission's administrative offices at 1610 North Second Street, Ishpeming, Michigan 49849.

Marquette County Road Commission
Governmental Funds Balance Sheet / Statement of Net Assets
September 30, 2004

	Modified Accrual Basis	Adjustments	Statement Of Net Assets
<u>ASSETS</u>			
Cash and Cash equivalents	\$ 3,188,064	\$ -	\$ 3,188,064
Accounts receivable:			
Michigan Transportation Fund	938,146	-	938,146
State Highway - Other	1,331,391	-	1,331,391
Due on County Road Agreements	480,218	-	480,218
Sundry Accounts	304,508	-	304,508
Inventories:			
Road materials	483,826	-	483,826
Equipment materials and parts	191,741	-	191,741
Prepaid insurance	152,786	-	152,786
Capital Assets (Net of Accumulated Depreciation)	-	2,550,563	2,550,563
Total Assets	<u>\$ 7,070,680</u>	<u>\$ 2,550,563</u>	<u>9,621,243</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	\$ 132,543	-	\$ 132,543
Accrued Liabilities	130,606	-	130,606
Performance Bonds Payable	34,500	-	34,500
Advances	419,802	-	419,802
Deferred Revenue	377,792	-	377,792
Non-Current Liabilities			
Bonds Payable - Due Within One Year	-	200,000	200,000
Notes Payable - Due Within One Year	-	134,411	134,411
Accumulated Employee Benefits - Due Within One Year	-	121,537	121,537
Bonds Payable - Due After One Year	-	1,200,000	1,200,000
Notes Payable - Due After One Year	-	360,331	360,331
Accumulated Employee Benefits - Due After One Year	-	364,612	364,612
Total Liabilities	<u>1,095,243</u>	<u>2,380,891</u>	<u>3,476,134</u>
FUND BALANCE/NET ASSETS			
Fund Balances - Unreserved	<u>5,975,437</u>	<u>(5,975,437)</u>	<u>-</u>
Total Fund Equities	<u>5,975,437</u>	<u>5,975,437</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 7,070,680</u>		
Net Assets			
Invested in Capital Assets - Net of Related Debt		946,596	946,596
Restricted for County Road		<u>5,198,513</u>	<u>5,198,513</u>
Total Net Assets		<u>\$ 169,672</u>	<u>\$ 6,145,109</u>

The Notes to Financial Statements are an integral part of this statement.

Marquette County Road Commission
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance / Statement of Activities
For the Year Ended September 30, 2004

	Modified Accrual Basis	Adjustments	Statement Of Net Assets
Revenue			
License and Permits	\$ 18,480	\$ -	\$ 18,480
Federal Grants	796,951	-	796,951
State Grants	7,452,957	-	7,452,957
Contributions From Local Units	408,208	-	408,208
Charges for Services	2,247,832	-	2,247,832
Interest and Rents	77,019	-	77,019
Other Revenue	587,255	(191,111)	396,144
Total Revenue	<u>11,588,702</u>	<u>(191,111)</u>	<u>11,397,591</u>
Expenditures			
Current			
Primary Road Heavy Maintenance	1,455,764	-	1,455,764
Primary Road Maintenance	1,280,497	-	1,280,497
Local Road Heavy Maintenance	2,343,108	-	2,343,108
Local Maintenance	2,391,064	-	2,391,064
State Tunkline Maintenance	1,953,034	-	1,953,034
Equipment Expense - Net	144,881	-	144,881
Administrative Expense - Net	391,754	-	391,754
Compensated Absences	-	30,236	30,236
Capital Outlay - Net	(60,324)	60,324	-
Other Expense	54,495	-	54,495
Debt Service			
Principle	328,398	(328,398)	-
Interest	75,674	-	75,674
Total Expenditures	<u>10,358,345</u>	<u>(237,838)</u>	<u>10,120,507</u>
Excess of Revenue Over (Under) Expenditures	<u>1,230,357</u>	<u>46,727</u>	<u>1,277,084</u>
Other Financing Sources			
Transfers In - Primary Government	40,000	-	(40,000)
Total Other Financing Sources	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>1,270,357</u>	<u>46,727</u>	<u>1,317,084</u>
Change in Net Assets			
Fund Balance/Net Assets - Beginning of Year	4,705,080	122,945	4,828,025
Fund Balance/Net Assets - End of Year	<u>\$ 5,975,437</u>	<u>\$ 169,672</u>	<u>\$ 6,145,109</u>

The Notes to the Financial Statements are an integral part of this statement.

Marquette County Road Commission
Notes to Financial Statements
September 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Marquette County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Marquette County Road Commission.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

(1) Reporting Entity

The Marquette County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Marquette County Road Commission, a discretely presented component unit of Marquette County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

(2) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Marquette County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expense is those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

(3) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(4) Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Marquette County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before September 30, 2007 as permitted by GASB 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Bank Deposits	<u>\$3,188,064</u>
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Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal

NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):

agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits	<u>\$3,188,064</u>	<u>\$4,009,234</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations. The risk disclosures for the Road Commission deposits, as required by Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Financial Institution Balance</u>	<u>FDIC Coverage</u>
Bank Deposits	<u>\$4,009,234</u>	<u>\$147,394</u>

NOTE D – DEFERRED COMPENSATION PLAN:

The Marquette County Road Commission offers all its employees a deferred compensation plan created accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Marquette County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Marquette County Road Commission's financial statements.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the Marquette County Road Commission for the current year was as follows:

	Beginning Balances 10/01/03	Additions	Deletions	Ending Balances 9/30/04
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 272,377	\$ -	\$ -	\$ 272,377
Land/Right-of-Way	-	-	-	-
Construction in Progress	-	-	-	-
Subtotal	<u>272,377</u>	<u>-</u>	<u>-</u>	<u>272,377</u>
Capital Assets Being Depreciated:				
Depletable Assets	161,686	-	-	161,686
Buildings	2,003,195	-	-	2,003,195
Road Equipment	11,007,386	265,215	(409,329)	10,863,272
Shop Equipment	135,248	-	-	135,248
Office Equipment	166,170	29,974	-	191,144
Engineers' Equipment	63,194	-	-	63,194
Yard and Storage	280,612	237,505	-	518,117
Vehicles	36,975	-	-	36,975
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	-	-	-	-
Subtotal	<u>13,854,466</u>	<u>532,694</u>	<u>(409,329)</u>	<u>13,972,831</u>
Less Accumulated Depreciation:				
Depletable Assets	(161,686)	-	-	(161,686)
Buildings	(1,088,243)	(45,672)	-	(1,133,915)
Road Equipment	(9,665,965)	(490,637)	223,038	(9,933,564)
Shop Equipment	(83,361)	(9,877)	-	(93,238)
Office Equipment	(141,957)	(17,458)	-	(159,415)
Engineers' Equipment	(56,899)	(3,966)	-	(60,865)
Yard and Storage	(99,044)	(18,761)	-	(117,805)
Vehicles	(27,690)	(6,467)	-	(34,157)
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	-	-	-	-
Subtotal	<u>(11,324,845)</u>	<u>(592,838)</u>	<u>223,038</u>	<u>(11,694,645)</u>
Net Capital Assets Being Depreciated	<u>2,529,621</u>	<u>(60,144)</u>	<u>186,291</u>	<u>2,278,186</u>
Total Net Capital Assets	<u>\$ 2,801,998</u>	<u>\$(60,144)</u>	<u>\$ 186,291</u>	<u>\$ 2,550,563</u>

Depreciation expense was charged to programs of the Marquette County Road Commission as follows:

Equipment Expense:	
Direct	\$490,637
Indirect	64,320
Administrative Expense	<u>37,881</u>
Total Depreciation Expense	<u>\$592,838</u>

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Marquette County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Gabriel, Roeder, Smith & Company, One Town Square, Suite 800, Southfield, Michigan, 48076.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Marquette County Road Commission's competitive bargaining units and requires any contribution from the employees of zero to 10% of gross wages for the County Road Commission.

Annual Pension Costs – For year ended 2004, Marquette County Road Commission's annual pension cost of \$588,480 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of September 30 follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual Pension Cost (APC)	\$583,898	\$606,917	\$547,698
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	\$8,226,897	\$8,377,435	\$8,691,001
Actuarial Accrued Liability (AAL)	\$13,610,836	\$14,854,137	\$15,508,649
Unfunded AAL (UAAL)	\$5,383,939	\$6,476,702	\$6,817,648
Funded Ratio	60%	56%	56%
Covered Payroll	\$3,130,993	\$2,862,489	\$2,503,371
UAAL as a Percentage of Covered Payroll	172%	226%	272%

NOTE G – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2004, the Federal aid received and expended by the Road Commission was \$643,232 for contracted projects and \$153,719 negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects which will be included with the County's Single Audit.

NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Road Commission. Full premium of medical benefits for the retired employees only, between 60 and 65 years old are paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 3 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$274,808 were recognized for post-retirement health care.

NOTE I – GENERAL LONG-TERM DEBT:

The general long-term debt of the Road Commission may be summarized as follows:

	Balance <u>October 1, 2003</u>	Additions <u>(Reductions)</u>	Balance <u>September 30, 2004</u>
SIB Loan	\$ 290,775	\$ -	\$ 290,775
Volvo Lease	332,365	(128,398)	203,967
Vested Employee Benefits:			
Bond	1,600,000	(200,000)	1,400,000
Vacation Benefits	71,010	3,522	74,532
Sick Leave Benefits	<u>384,903</u>	<u>26,714</u>	<u>411,617</u>
TOTAL	<u>\$2,679,053</u>	<u>\$(298,162)</u>	<u>\$2,380,891</u>

On June 7, 2001, the Marquette County Road Commission issued \$2,000,000 Michigan Transportation Fund Revenue Note of 2001 "Bond" for the purpose of equipment purchase and paying off of the debt related to equipment purchases in the past. The bond's interest is due semi-annually on February 7 and August 7 at a rate of 4% with principal due August 7 of each year.

NOTE I – GENERAL LONG-TERM DEBT (Continued):

Bond

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 200,000	\$ 59,800	\$ 259,800
2006	200,000	51,800	251,800
2007	200,000	43,800	243,800
2008	200,000	35,300	235,300
2009	200,000	26,800	226,800
Thereafter	<u>400,000</u>	<u>27,000</u>	<u>427,000</u>
Total	<u>\$1,400,000</u>	<u>\$244,500</u>	<u>\$1,644,500</u>

SIB LOAN

As part of the Emergency Funding from the State of Michigan for the 2003 Dead River Flooding reconstruction, the State gave the Marquette County Road Commission a \$290,775 loan from the State Infrastructure Bank, with 0% interest and is due on September 30, 2005 in one lump sum payment.

VOLVO LOAN

In May of 2004, the Marquette County Road Commission purchased two Volvo Motor Graders on an installment loan for \$395,900 with 36 month payments of \$11,747.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$134,411	\$ 6,560	\$140,971
2006	<u>69,556</u>	<u>960</u>	<u>70,516</u>
Total	<u>\$203,967</u>	<u>\$7,520</u>	<u>\$211,487</u>

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day, or 8 hours, for each completed month of employment. Sick leave may be accumulated without limit.

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for 1,500 hours accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

Required Supplemental Information

Marquette County Road Commission
General Operating Fund
Statement of Revenues and Other Financing Sources
Budgetary Comparison Schedule
For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Licenses and Permits	\$ 5,600	\$ 13,000	\$ 18,480	\$ 5,480
Federal Aid				
Surface Transportation Program	6,065,000	2,030,000	643,232	(1,386,768)
Other	180,000	112,150	153,719	41,569
State Aid				
Michigan Transportation Fund:				
Engineering	10,000	10,000	10,000	-
Primary Road	2,700,000	3,144,619	3,144,619	-
Primary Urban Road	250,000	254,366	254,366	-
Local Road	2,603,486	2,107,737	2,107,737	-
Local Urban Road	135,000	138,188	138,188	-
Snow Removal	370,514	394,410	394,410	-
State Critical Bridge	-	111,187	111,187	-
Other	-	89,493	759,334	669,841
Economic Development Fund:				
Rural Primary "D" Funds	-	-	224,122	224,122
Forest Road "E" Funds	-	450,000	308,994	(141,006)
Contributions from Local Units				
Townships	500,000	500,000	386,593	(113,407)
Others	-	-	21,615	21,615
Charges for Service:				
Trunkline Maintenance	1,440,000	1,777,653	1,953,034	175,381
Salvage sales	-	-	48,804	48,804
Other	-	-	245,994	245,994
Interest and Rents	50,000	60,000	77,019	17,019
Other:				
Reimbursements	630,000	325,000	574,805	249,805
Gain on Equipment Disposal(s)	-	-	12,450	12,450
Total Operating Revenue	<u>14,939,600</u>	<u>11,517,803</u>	<u>11,588,702</u>	<u>70,899</u>
Other Financing Sources				
County Appropriation	-	-	40,000	40,000
Total Other Financing Sources	-	-	40,000	40,000
Total Revenue and Other Financing Sources	<u>14,939,600</u>	<u>11,517,803</u>	<u>\$ 11,628,702</u>	<u>\$ 110,899</u>
Fund Balance - October 1, 2003	<u>4,705,080</u>	<u>4,705,080</u>		
Total Budget	<u>\$ 19,644,680</u>	<u>\$ 16,222,883</u>		

Marquette County Road Commission
General Operating Fund
Statement of Expenditures
Budgetary Comparison Schedule
For the Year Ended September 30, 2004

	Amended Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Primary Roads:				
Heavy maintenance	\$ 7,200,300	\$ 2,200,000	\$ 1,396,072	\$ 803,928
Maintenance	1,200,000	1,305,000	1,280,497	24,503
Local Roads:				
Heavy maintenance	1,250,000	1,161,378	1,416,347	(254,969)
Maintenance	2,000,000	2,400,000	2,391,064	8,936
Primary Roads Structures:				
Heavy Maintenance	-	60,000	59,692	308
Local Roads Structures:				
Heavy Maintenance	-	950,000	926,761	23,239
State Trunkline Maintenance	1,328,000	1,777,653	1,953,034	(175,381)
Equipment Expense - Net	150,000	300,000	144,881	155,119
Direct			1,859,126	
Indirect			1,048,133	
Operating			31,544	
Less: Equipment Rentals			(3,076,922)	
Administrative Expense - Net	350,000	305,000	391,754	(86,754)
Administrative Expense			474,677	
Engineering Expense			118,489	
Less: Overhead - State Trunkline			(201,412)	
Capital Outlay - Net	136,825	400,000	(60,324)	460,324
Capital Outlay			532,694	
Less: Depreciation Credits			(592,838)	
Less: Equipment Retirements			(180)	
Other	725,000	250,000	54,495	195,505
Debt Service				
Principle Payment	328,398	328,398	328,398	-
Interest Expense	271,077	80,374	75,674	4,700
TOTAL EXPENDITURES	14,939,600	11,517,803	\$ 10,358,345	\$ 1,159,458
FUND BALANCE - September 30, 2003	4,705,080	4,705,080		
Total Budget	\$ 19,644,680	\$ 16,222,883		

Supplemental Financial Information

Marquette County Road Commission
Analysis of Changes in Fund Balance
For the Year Ended September 30, 2004

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Revenues	\$ 4,189,488	\$ 4,249,503	\$ 3,149,711	\$ 11,588,702
Expenditures	<u>2,905,816</u>	<u>5,054,557</u>	<u>2,397,972</u>	<u>10,358,345</u>
Excess of Revenues Over (Under) Expenditures	<u>1,283,672</u>	<u>(805,054)</u>	<u>751,739</u>	<u>1,230,357</u>
Other Financing Sources (Uses)				
Transfers In	-	-	40,000	40,000
Optional Transfers In (Out)	<u>(805,054)</u>	<u>805,054</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(805,054)</u>	<u>805,054</u>	<u>40,000</u>	<u>40,000</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>478,618</u>	<u>-</u>	<u>791,739</u>	<u>1,270,357</u>
Fund Balance - October 1	<u>255,262</u>	<u>-</u>	<u>4,449,818</u>	<u>4,705,080</u>
FUND BALANCE - SEPTEMBER 30	<u>\$ 733,880</u>	<u>\$ -</u>	<u>\$ 5,241,557</u>	<u>\$ 5,975,437</u>

Marquette County Road Commission
Analysis of Revenues
For the Year Ended September 30, 2004

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Licenses and Permits	\$ -	\$ -	\$ 18,480	\$ 18,480
Federal Aid				
Surface Transportation Program	-	643,232	-	643,232
Other	-	153,719	-	153,719
State Aid				
Michigan Transportation Fund:				
Engineering	5,000	5,000	-	10,000
Primary Road	3,144,619	-	-	3,144,619
Primary Urban Road	254,366	-	-	254,366
Local Road	-	2,107,737	-	2,107,737
Local Urban Road	-	138,188	-	138,188
Snow Removal	-	394,410	-	394,410
State Critical Bridge	-	111,187	-	111,187
Other	400,541	139,668	219,125	759,334
Economic Development Fund:				
Rural Primary "D" Funds	224,122	-	-	224,122
Forest Road "E" Funds	160,840	148,154	-	308,994
Contributions from Local Units				
Townships	-	386,593	-	386,593
Others	-	21,615	-	21,615
Charges for Service:				
Trunkline Maintenance	-	-	1,953,034	1,953,034
Salvage sales	-	-	48,804	48,804
Other	-	-	245,994	245,994
Interest and Rents	-	-	77,019	77,019
Other:				
Reimbursements	-	-	574,805	574,805
Gain on Equipment Disposal(s)	-	-	12,450	12,450
Total Operating Revenue	<u>4,189,488</u>	<u>4,249,503</u>	<u>3,149,711</u>	<u>11,588,702</u>
Other Financing Sources				
County Appropriation	-	-	40,000	40,000
Total Other Financing Sources	-	-	40,000	40,000
Total Revenue and Other Financing Sources	<u>\$ 4,189,488</u>	<u>\$ 4,249,503</u>	<u>\$ 3,189,711</u>	<u>\$ 11,628,702</u>

Marquette County Road Commission
Analysis of Expenditures
For the Year Ended September 30, 2004

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary Roads:				
Heavy maintenance	\$ 1,396,072	\$ -	\$ -	\$ 1,396,072
Maintenance	1,280,497	-	-	1,280,497
Local Roads:				
Heavy maintenance	-	1,416,347	-	1,416,347
Maintenance	-	2,391,064	-	2,391,064
Primary Roads Structures:				
Heavy Maintenance	59,692	-	-	59,692
Local Roads Structures:				
Heavy Maintenance	-	926,761	-	926,761
State Trunkline Maintenance	-	-	1,953,034	1,953,034
Equipment Expense - Net	26,064	72,122	46,695	144,881
Administrative Expense - Net	143,491	248,263	-	391,754
Capital Outlay - Net	-	-	(60,324)	(60,324)
Other	-	-	54,495	54,495
Debt Service				
Principle Payment	-	-	328,398	328,398
Interest Expense	-	-	75,674	75,674
TOTAL EXPENDITURES	\$ 2,905,816	\$ 5,054,557	\$ 2,397,972	\$ 10,358,345

Compliance Section



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners
Marquette County Road Commission
Ishpeming, MI 49849

We have audited the financial statements of the Marquette County Road Commission; component units of the County of Marquette, Michigan as of and for the year ended September 30, 2004, and have issued our report thereon dated December 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marquette County Road Commission's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marquette County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of County Road Commissioners
Marquette County Road Commission
Ishpeming, MI 49849

This report is intended solely for the information and use of management, the audit committee, the Board, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

December 10, 2004



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Marquette County Road Commission Report to Management Letter For the Year Ended September 30, 2004

Board of County Road Commissioners
Marquette County Road Commission
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the Marquette County Road Commission for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. We noted no matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Other Comments and Recommendations

GASB No. 34 Implementation

The Governmental Accounting Standards Board has recently issued Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" which will completely change the way local governments are required to prepare financial reports and infrastructure information. The thresholds and effective dates of the new reporting model is based on governmental and enterprise fund revenues for the base period ending in 1999.

Based on the financial results of the County of Marquette for the year ending September 30, 1999, you are required to implement the infrastructure reporting portion of GASB #34 for the year ending September 30, 2007.

Board of County Road Commissioners
Marquette County Road Commission
Ishpeming, Michigan 49849

Although implementation of the infrastructure reporting model is for the year ended September 30, 2007 the actual preparation must consider that the implementation affects the first date of that fiscal year. In other words you must be prepared to gather the proper information and implement the new standard as of September 30, 2006. The Board should consider developing an implementation plan that includes input from and consultation with the audit firm, individual units with the primary government, departments, and component units. We encourage you to start to begin preparing for this implementation as you are nearing the initial period.

* * * * *

This report is intended solely for the information and use of the Commission's management, others within the County Administration and any oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Commission's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

December 10, 2004